

**COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF CORRECTION AND REHABILITATION**

**SINGLE AUDIT  
YEAR ENDED JUNE 30, 2011**

**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF CORRECTION AND REHABILITATION**

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## INDEPENDENT AUDITORS' REPORT

Commonwealth of Puerto Rico  
Department of Correction and Rehabilitation  
San Juan, Puerto Rico

We have audited the accompanying schedule of cash receipts and disbursement activities of the Commonwealth of Puerto Rico Department of Correction and Rehabilitation ("DCR") for the fiscal year ended June 30, 2011. The schedule of cash receipts and disbursement activities is the responsibility of the DCR's management. Our responsibility is to express an opinion on the Statement of Cash Receipts and Disbursements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of cash receipts and disbursement activities is free of material misstatements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the DCR's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule of cash receipts and disbursement activities. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule of cash receipts and disbursement activities presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, DCR prepares its schedule of cash receipts and disbursement activities for its governmental activities on a cash receipts and disbursements basis (cash basis) of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Also, as discussed in Note 1, the schedule of cash receipts and disbursement activities of the DCR is intended to present the cash receipts and cash disbursements of only that portion of the governmental activities of the Commonwealth of Puerto Rico attributable to the transactions of the DCR. It does not intend to, and does not present fairly the financial position and changes in financial position of the Commonwealth of Puerto Rico in conformity with accounting principles generally accepted in the United States of America.

In our opinion the schedule of cash receipts and disbursement activities presents fairly, in all material respects, the results of the cash receipts and disbursements activities of the Commonwealth of Puerto Rico Department of Correction and Rehabilitation, for the fiscal year ended June 30, 2011, in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report, dated December 22, 2011, on our consideration of the DCR's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis information on pages 3 to 4 is not a required part of the schedule of cash receipts and disbursement activities but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the schedule of cash receipts and disbursement activities of DCR taken as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the schedule of cash receipts and disbursements activities. The schedule of expenditures of federal awards is the responsibility of DCR's management and was derived from and relate directly to the underlying accounting and other records used to prepare the schedule of cash receipts and disbursements activities. The information has been subjected to the auditing procedures applied in the audit of the statement of cash receipts and disbursements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statements of cash receipts and disbursements or to the schedule of cash receipts and disbursements activities themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the schedule of cash receipts and disbursements activities taken as a whole.

*Guzmán, Torres Castro & Díaz, CPA's PSC*

**CERTIFIED PUBLIC ACCOUNTANTS -**  
December 22, 2011

Stamp # 2636304  
was affixed to the original of this report.

**COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF CORRECTION AND REHABILITATION**

**MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2011**

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*(Unaudited)*

**OVERVIEW OF THE AUDITED FINANCIAL STATEMENTS**

As management of the Commonwealth of Puerto Rico Department of Correction and Rehabilitation ("DCR"), we offer readers of the annual financial report, our discussion and analysis of the DCR's financial performance during the fiscal year ended June 30, 2011. The management's discussion and analysis is designed to assist the reader in understanding the DCR's operations and should be read in conjunction with the schedule of cash receipts and disbursement activities, which follows this section.

The financial report consists of two parts: management's discussion and analysis (this section), and the schedule of cash receipts and disbursement activities including notes to the financial statement.

- The schedule of cash receipts and disbursement activities presents the cash receipts and disbursements of only that portion of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of the DCR.
- The report also includes notes to the schedule of cash receipts and disbursement activities section that explains some of the information in the schedule of cash receipts and disbursement activities and provides more detailed data.

The DCR utilizes the cash basis of accounting to account for all programs administered. Under this method, revenue received is recognized as cash or funds are transferred-in, and expenditures are recognized when funds are disbursed or transferred-out. Therefore, the schedule of cash receipts and disbursement activities is not intended to present the DCR's results of operations in accordance with accounting principles generally accepted in the United States of America.

**FINANCIAL HIGHLIGHTS**

DCR receives State funds and Federal awards to finance its operations and to carry out certain programs and activities as follows:

***State Funds:***

These funds basically consist of legislative appropriations received from the Commonwealth of Puerto Rico. Total state funds expended during the year ended June 30, 2011 amounted to approximately \$5,290,000.

**COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF CORRECTION AND REHABILITATION**

**MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2011**

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*(Unaudited)*

***Federal Awards:***

Federal awards are received from different Federal agencies and are restricted for specific purposes related to DCR activities. Total federal awards expended during the year ended June 30, 2011 amounted to \$993,000.

**CONTACTING THE DCR'S FINANCIAL MANAGEMENT**

*This financial report is designed to provide the readers with a general overview of the DCR's cash receipts and disbursements and to demonstrate the DCR's accountability for the money it receives. If you have question or need additional financial information, contact the Commonwealth of Puerto Rico Department of Correction and Rehabilitation, PO Box 19175, San Juan, Puerto Rico 00910.*

**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF CORRECTION AND REHABILITATION**

**SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS ACTIVITIES**  
**YEAR ENDED JUNE 30, 2011**

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	<b>Cash Receipts</b>	<b>Cash Disbursements</b>	<b>Net</b>
State Funds:			
Annual appropriations from the Commonwealth of Puerto Rico	\$ 5,290,078	\$ 5,290,078	\$ -
Federal Funds:			
U.S. Department of Justice	<u>2,802,865</u>	<u>993,203</u>	<u>1,809,662</u>
Total	<u>\$ 8,092,943</u>	<u>\$ 6,283,281</u>	<u>\$ 1,809,662</u>

**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF CORRECTION AND REHABILITATION**

**NOTES TO SCHEDULE OF CASH RECEIPTS AND DISBURSEMENT ACTIVITIES**  
**YEAR ENDED JUNE 30, 2011**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Department of Correction and Rehabilitation of the Commonwealth of Puerto Rico (DCR) was created by Plan of Reorganization No 3 of 1993 approved by the Governor of the Commonwealth of Puerto Rico. The DCR was organized as an umbrella of all departments and organizations that comprise the penal system of the Commonwealth of Puerto Rico including the Administration of Correction and the Juvenile Institutions Administration, among others. The DCR was created to integrate and implement public policy with respect to the penal system of the Commonwealth of Puerto Rico at the institutions and community level, to improve in the development of correctional and rehabilitation programs for adults and juveniles, to effectively coordinate all the operational resources of the DCR and its ascribed agencies, and to integrate the rehabilitation system permitting a better supervision by the Governor of the Commonwealth of Puerto Rico.

The accompanying statement of cash receipts and disbursement activities of the DCR. Separate financial statements of statements of cash receipts and disbursements activities are prepared for each of the DCR ascribed agencies or departments.

**Basis of Presentation**

DCR's schedule of cash receipts and disbursement activities has been prepared in accordance with the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Revenue is recognized when cash is received or transferred-in and expenditures are recorded when the related disbursement is incurred or transferred-out. The accounts of the DCR are accounted for with a set of accounts, which only include cash receipts and cash disbursements. No balance sheet accounts are maintained or reported.

**Statutory (Budgetary) Accounting and Budgetary Control**

Formal budgetary accounting is employed as a management control for all programs of the DCR. Annual operating budgets are adopted each fiscal year through passage of an annual budget, which is approved by the Commonwealth of Puerto Rico Legislature and amended as required through the year. All unencumbered budget appropriations of local funds lapse three years after the end of each fiscal year. Federal grant funds can be carried over for a specified amount of time, upon request to and approval by the Federal Agencies.

The schedule of cash receipts and disbursement activities is presented at the programmatic level. However, budgetary control and accounting is exercised at a lower level providing management with detailed control over expenditures at an appropriated budget level.



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**NOTES TO SCHEDULE OF CASH RECEIPTS AND DISBURSEMENT ACTIVITIES**  
**YEAR ENDED JUNE 30, 2011**

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Compensated absences

The vacation policy of the Commonwealth of Puerto Rico that applies to the DCR's employees provides for the accumulation of 2.5 days per month. Vacation time accumulated is fully vested to the employees from the first day of work up to a maximum of 60 days. DCR's employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated unpaid leave at the current rate, if the employee has at least 10 years of service with the Commonwealth of Puerto Rico.

Risk financing

The Commonwealth of Puerto Rico purchases commercial insurance covering casualty, theft, tort, claims, and other losses for the DCR. The DCR reimburses the Commonwealth for premium payments made on its behalf. The DCR's current insurance policies have not been canceled or terminated. For workers' compensation, the State Insurance Fund Corporation, a component unit of the Commonwealth of Puerto Rico, provides the workers compensation to the DCR's employees.

**2. RESOURCES WITH FISCAL AGENT**

The funds of the DCR from legislative appropriations and federal grants are under the custody of the Secretary of Treasury of the Commonwealth of Puerto Rico, pursuant to Act No. 230 of July 23, 1974, as amended, known as the "Accounting Law of the Commonwealth of Puerto Rico". The Department of the Treasury of the Commonwealth of Puerto Rico follows the practice of pooling resources under the custody of the Secretary of the Treasury. Those portions of funds of DCR are pooled in appropriation accounts and are available to meet the DCR's current operating requirements

**3. COMMITMENTS AND CONTINGENCIES**

**Operating Leases**

DCR's administrative facilities are located in a building leased by the Administration of Correction (AOC), one the DCR ascribed agencies. AOC does not charge any rent to DCR for the use of such facilities.

***Litigation***

The Commonwealth of Puerto Rico's Law 104 of June 30, 1955, as amended, known as Claims and Lawsuits against the State, provides that lawsuits initiated against an agency or instrumentality of the Commonwealth of Puerto Rico, present and former employees, directors, mayors, and other may be represented by the Department of Justice of the

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**NOTES TO SCHEDULE OF CASH RECEIPTS AND DISBURSEMENT ACTIVITIES**  
**YEAR ENDED JUNE 30, 2011**

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Commonwealth of Puerto Rico. Any adverse claims to the defendants are to be paid by the Commonwealth of Puerto Rico General Fund. However, the Secretary of the Treasury of the Commonwealth of Puerto Rico has the discretion of requesting reimbursement of the funds expended for these purposes from the public corporations, governmental institutions and municipalities of the defendants.

DCR is, at present, defendant in a number of lawsuits arising out of, and incident to its operations. The information as to the claims and related amounts has been produced by Department of Justice of the Commonwealth of Puerto Rico in order to determine the extent and status of such legal actions. However, as explained above the outcome of such litigation has no impact on DCR's budget, because amounts are paid through the general fund of the Commonwealth of Puerto Rico.

***Federal Awards***

DCR participates in a number of federal award programs. Expenditures financed by grants are subjected to program compliance audits by the grantor agencies in order to assure compliance with grant requirements. DCR's management believes, based on prior experience that the amount of expenditures, which may be disallowed by the granting agencies from such audits if any, would not be material in relation to the operations of DCR.

**4. RETIREMENT PLAN**

Substantially all the DCR's employees participate in the Retirement System of the Commonwealth of Puerto Rico ("the System"), a cost sharing multi-employer defined benefit pension plan. The payroll for employees covered by the System for the year ended June 30, 2011 was approximately \$4.3 million.

All DCR's employees, who at the time of employment are 55 years old or less, are eligible to participate in the System. Employees who retire at or after age 55 with 25 years of credited service or age 58 with 10 years of credited service are entitled to a retirement benefit, payable each month for life, computed based on a benefit rate set forth by Commonwealth statute.

The System also provides death and disability benefits established by Commonwealth statute. Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The DCR is required by the same statute to contribute 9.275% of the participant's gross salary.

On September 24, 1999, an amendment to Act No. 447 of May 1, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Employees joining the

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**NOTES TO SCHEDULE OF CASH RECEIPTS AND DISBURSEMENT ACTIVITIES**  
**YEAR ENDED JUNE 30, 2011**

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Authority on or after January 1, 2001, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that takes into account each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) and investment income as defined in the Plan. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000.

Total employer contributions paid during the year ended June 30, 2011 under this plan amounted to approximately \$354,000.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2011 and 2010, a copy of which can be obtained from the Retirement System Administration, Minillas Station, P.O. Box 42003, San Juan, PR 00940.

**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF CORRECTION AND REHABILITATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2011**

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<b>Federal Grantor/Pass-Through Entity/ Program</b>	<b>Federal CDFA Number</b>	<b>Federal Expenditure</b>
U.S. Department of Justice		
Direct program		
Violent Offender and Truth in Sentencing Incentive Grant	16.586	\$ 906,853
 Passed through program from the Commonwealth of Puerto Rico Department of Justice		
Byrne Justice Assistance Grant	16.738	<u>86,350</u>
 Total		<u>\$ 993,203</u>

**COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF CORRECTION AND REHABILITATION**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2011**

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**General**

The accompanying schedule of expenditures of federal awards presents the activity of federal awards programs of the Commonwealth of Puerto Rico Department of Correction ("DCR"), an agency of the Commonwealth of Puerto Rico. DCR reporting entity is defined in Note 1 to the DCR's schedule of cash receipts and disbursement activities. All federal awards received directly from federal agencies as well as federal awards passed through other governmental agencies are included in the schedule of expenditures of federal awards.

**Basis of Accounting**

The accompanying schedule of expenditures of federal awards is presented using the cash basis of accounting which is described in Note 1 to DCR's schedule of cash receipts and cash disbursements activities. Expenditures are determined using the cost accounting principles and procedures set forth in OMB Circular A-87, *Cost Principles for States, Local and Indian Tribal Governments*.

**Reconciliation to Financial Statements**

Information reported in the accompanying schedule of expenditures of federal awards agreed with or has being reconciled to the information reported in DCR's schedule of cash receipts and disbursements activities.

**Pass-Through Awards**

DCR received its Federal Awards in the form of pass-through awards from certain agencies of the Commonwealth of Puerto Rico as identified on the Schedule.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Commonwealth of Puerto Rico  
Department of Correction and Rehabilitation  
San Juan, Puerto Rico

We have audited the schedule of cash receipt and disbursement activities of the Commonwealth of Puerto Rico Department of Correction and Rehabilitation (“DCR”) for the year ended June 30, 2011, and have issued our report thereon dated December 22 2011.

Our report on the schedule of cash receipt and disbursement activities disclosed that, as described in Note 1 to the schedule, DCR prepares its schedule of cash receipts and disbursement activities in accordance with the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Also, our report on the schedule of cash receipts and disbursement activities disclosed that the schedule of the DCR is intended to present the cash receipts and cash disbursements of only that portion of the governmental activities of the Commonwealth of Puerto Rico attributable to the transactions of the DCR. It does not intend to, and does not present fairly the financial position and changes in financial position of the Commonwealth of Puerto Rico in conformity with accounting principles generally accepted in the United States of America.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the DCR’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DCR’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the DCR’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 11-FS-01, 11-FS-04 and 11-FS-05 to be material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs as item 11-FS-02 be significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the DCR's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 11-FS-03 and 11-FS-06.

This report is intended solely for the information of the DCR's management, Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Guzmán, Torres Castro & Díaz, CPAs PSC*  
**CERTIFIED PUBLIC ACCOUNTANTS**  
December 22, 2011

Stamp # 2636305  
was affixed to the original of this report.



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Commonwealth of Puerto Rico  
Department of Correction and Rehabilitation  
San Juan, Puerto Rico

***Compliance***

We have audited Commonwealth of Puerto Rico Department of Correction and Rehabilitation ("DCR") compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of DCR's major federal programs for the year ended June 30, 2011. DCR's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of DCR's management. Our responsibility is to express an opinion on DCR's compliance based on our audit

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about DCR's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of DCR's compliance with those requirements.

As explained in items 11-SA-02 to 11-SA-04 in the schedule of findings and questioned costs, we were unable to obtain sufficient documentation supporting the compliance of DCR with Violent Offender and Truth in Sentencing Incentive Grant (CDFA 16.586) regarding period of availability, reporting and matching, nor were we able to satisfy ourselves as to DCR's compliance with those requirements by other auditing procedures.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding DCR's compliance with the requirements of Violent Offender and Truth in Sentencing Grant (CDFA 16.586) regarding period of availability, reporting and cash management, DCR complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 11-SA-01.

### *Internal Control over Compliance*

Management of DCR is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered DCR's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of DCR's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the DCR's management, Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Guzmán, Torres Castro & Díaz, CPAs PSC*  
**CERTIFIED PUBLIC ACCOUNTANTS**  
December 22, 2011

Stamp # 2636306  
was affixed to the original of this report.

**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF CORRECTION AND REHABILITATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2011**

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**SECTION 1 – SUMMARY OF AUDITORS’ REPORT**

1. The type of opinion issued in the financial statements	Unqualified
2. The independent accountants’ report on internal control over financial reporting described:	
a. Significant deficiencies noted considered material weaknesses	Yes
b. Significant deficiency noted that is not considered to be a material weaknesses	Yes
3. Noncompliance considered material to the financial statements was disclosed by the audit	Yes
4. The independent accountants’ report on internal control over compliance with requirements applicable to major Federal awards described:	
a. Significant deficiency noted considered to be a material weaknesses	Yes
b. Significant deficiency noted that is not considered to be a material weaknesses	No
5. The opinion expressed in the independent accountants’ report on compliance with requirements applicable to major Federal awards	Qualified
6. The audit disclosed findings to be reported in accordance with Section .510(a) of OMB Circular A-133	Yes
7. The Authority’s major program was:	
<u>Name of Federal Program or Cluster</u>	<u>CFDA No</u>
Violent Offender Incarceration and Truth in Sentencing Incentive Grant	16.586
8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133	\$300,000
9. Auditee qualified as a low risk auditee under section .530 OMB Circular a-133	No

**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF CORRECTION AND REHABILITATION**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011

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**SECTION 2 - FINDINGS RELATING TO THE SCHEDULE OF CASH RECEIPTS AND  
DISBURSEMENTS REPORTED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS**

**Finding 11-FS-01 (Material Weakness)**

*Condition:*

DCR depends on the information provided by the Department of Treasury of the Commonwealth of Puerto Rico (Treasury Department) to prepare its statements of cash receipts and disbursements activities. However no reconciliation of the information provided by the Department of Treasury with DCR internal information and source documents is prepared by the accounting department.

*Criteria:*

Sound internal control policies should include procedures that require the timely reconciliation of accounting information with internal supporting data and documentation. Any differences or errors should be investigated and corrected.

*Cause of condition:*

No formal policies exist that requires the reconciliation of the accounting information provided by the Department of Treasury with DCR internal information and source documents. As the result it was difficult for DCR accounting personnel to provide the corrected schedule of cash receipts and disbursements for the year ended June 30, 2011.

*Effect of condition:*

Any error in the processing of DCR accounting data by the Department of Treasury will not be detected by DCR accounting personnel on a timely basis.

*Recommendation:*

Policies and procedures should be established that requires the timely reconciliation of the accounting information prepared and submitted by the Department of Treasury with its internal information and source documents. Lack of these policies and procedures does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF CORRECTION AND REHABILITATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2011**

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**Finding 11-FS-02**

*Condition:*

In certain cases, there is no indication approval for payment or checking of prices, extensions, footings of vendors' invoices as required by written policies and regulations.

*Criteria:*

Good internal control and procedures requires proper documentation of procedures performed such as approvals of vendor invoices for recording and payments.

*Cause of condition:*

Management has not consistently implemented written policies and procedures.

*Effect of condition:*

By not stamping vendor invoices as approved and as paid, DCR is exposed to pay for goods or services not received or to pay twice for the same goods or services.

*Recommendation:*

Policies and procedures should be established that require the stamp or cancellation of vendor invoices approved for payments and paid.

**Finding 11-FS-03**

*Condition:*

During our audit we observed that personnel files are not being kept current and in some instances were incomplete. In certain instances, forms such as I9, psychology test, among others, are not included in the files. In addition, personnel evaluations are not current. In certain instances, last evaluations included in files date back to 1984 and 1992.

*Criteria:*

Laws and regulations require that personnel files should be kept current and should include all required documentation.

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*Cause of condition:*

Not proper implementation of laws and regulations.

*Effect of condition:*

By not keeping personnel files current, DCR is exposed to penalties in case of legal claims.

*Recommendation:*

Procedures should be implemented to assure that all personnel files are current and complete in accordance with laws and regulations

**Finding 11-FS-04 (Material Weakness)**

*Condition:*

During our audit procedures in the payroll area, we noted that in certain instances human resources and payroll master files are not updated on a timely basis resulting in payments to employees that are in leave of absence or that no longer works for DCR. In one case the time card indicates that the employee did not worked any hours during the period in which he was paid.

*Criteria:*

Payroll payments should be made to employees for actual time worked.

*Cause of Condition:*

There are no controls that ensure timely communication between the field supervisor, human resources and payroll department on a timely basis. In certain instances, the payroll department learns that an employee is in leave of absence two or three months afterwards.

*Effect of Condition:*

Payments are made to employees for time not worked resulting in improper use of funds.

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*Recommendation:*

Controls and procedures should be established to assure that the status of each employee is current in the employee master file in order to avoid improper payroll payments and use of state funds. In addition procedures should be established that require timely communication by field supervisor to personnel and payroll department about the current status of each employee.

**Finding 11-FS-05 (Material Weakness)**

*Condition:*

During our test of the Schedule of Federal Awards ("SEFA") we noted that the SEFA was prepared using information provided by the Department of Treasury of the Commonwealth of Puerto Rico ("Treasury Department") which was not reconciled with records prepared by DCR. As the result in certain instances the amounts of the expenditures were not properly reflected in the SEFA and in other cases the amounts presented were not complete.

*Criteria:*

Good internal control procedures should include processes to verify and review the accuracy and completeness of financial information.

*Cause of Condition:*

Accounting records maintained by DCR are informal and are not reconciled on a timely basis with financial information provided by the Treasury Department. In addition DCR does not have trained personnel with the knowledge to retrieve information from the Puerto Rico Treasury Department Integrated Accounting System ("PRIFAS"). Therefore DCR depends on information submitted by personnel from the Treasury Department to prepare its financial records.

*Effect of Condition:*

There is a risk that federal expenditures reported on the SEFA are inaccurate.

*Recommendation:*

Process should be in place that will ensure the accuracy and completeness of the reporting of the federal expenditures. This process should include a system that is designed to allow for separate recording and tracking of federal and non-federal expenditures. In addition personnel with the proper training and experience should review federal expenditures and verify that the SEFA is reported correctly.



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**Finding 11-FS-06**

*Condition:*

In a sample of 40 payroll transactions, we found that in 4 cases the social security withheld was computed using the wrong rate.

*Criteria:*

The law requires that social security be withheld at rates established in the law.

*Cause of Condition:*

Social security rate was not adjusted in January 2011 when it changed according to the law.

*Effect of Condition:*

Non compliance with social security law. In addition DCR could be exposed to penalties in case of a tax audit.

*Recommendation:*

Procedures should be implemented that assure that payroll computer software is kept up to date with changes in tax laws.

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**SECTION 3 – FINDINGS AND QUESTION COSTS RELATING TO FEDERAL  
AWARDS**

**Finding 11-SA-01 (Material Weakness)**

*Federal Program:*

16.586 Violent Offenders Incarceration and Truth Sentencing Incentive Grants

*Federal Grantor:*

U.S Department of Justice

*Compliance Requirement:*

N/A

*Reporting Requirement:*

Material weakness in internal control over a major Federal program

*Condition:*

See finding 11-FS-01. This finding relates to material weakness in internal control over a major Federal program required to be reported under the OMB Circular A-133.

***Finding: 11-SA-02***

*Federal Program:*

16.586 Violent Offenders Incarceration and Truth Sentencing Incentive Grants

*Federal Grantor:*

U.S. Department of Justice

*Compliance Requirement*

Period of availability

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*Reporting Requirement:*

Material non-compliance in relation to a compliance requirement and material weakness in internal control over a major federal program

*Condition:*

During the year ended June 30, 2011 DCR disbursed the amount of \$906,853 of federal funds related to program 16.586 Violent Offenders Incarceration and Truth Sentencing Incentive Grants (the Program). The program period of availability ended on September 2009 and was extended until March 2010 as represented by management. The fiscal year 2011 disbursements were made after March 2010. Management represented that the U.S. Department of Justice authorized such disbursements but that such authorization was not in writing. Therefore we could not conclude whether the disbursements were made within the program period of availability or that in fact were approved by the U.S. Department of Justice.

*Criteria:*

Program laws and regulations require that disbursements of federal funds be made within the authorized period of availability.

*Cause of Condition:*

Management understands that the disbursements were approved by the U.S. Department of Justice although no written documentation exist about such approval.

*Effect of Condition:*

DCR is exposed to claims by the U.S. Department of Justice in case the disbursements were made after the program period of availability.

*Recommendation:*

Controls and procedures should be established to assure that proper documentation about compliance with program requirements exist at all times.

**Finding: 11-SA-03**

16.586 Violent Offenders Incarceration and Truth Sentencing Incentive Grants

*Federal Grantor:*

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U.S. Department of Justice

*Compliance Requirement*

Reporting

*Reporting Requirement:*

Material non-compliance in relation to a compliance requirement

*Condition:*

Although DCR disbursed \$906,853 of federal funds under the above program no reports were filed with the U.S. Department of Justice during the fiscal year ended June 30, 2011. Management did not provided us sufficient information to conclude whether such disbursements were included in previous reports filed with the U.S Department of Justice or whether DCR was not required to file any report during the fiscal year ended June 30, 2011.

*Criteria:*

Program laws and regulations required that certain financial reports be filed on specific due dates

*Cause of Condition:*

DCR personnel Federal Program Department as well as personnel from the accounting department were unable to determine if reports were required to be filed during fiscal year ended June 30, 2011 in accordance with programs laws and regulations.

*Effect of Condition:*

DCR might not be in compliance with program laws and regulations.

*Recommendation:*

Controls and procedures should be established to assure that proper documentation about compliance with program requirements exist at all times.

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**Finding: 11-SA-04**

16.586 Violent Offenders Incarceration and Truth Sentencing Incentive Grants

*Federal Grantor:*

U.S. Department of Justice

*Compliance Requirement*

Matching

*Reporting Requirement:*

Material non-compliance in relation to a compliance requirement

*Condition:*

Program laws and regulations require DCR to provide a 10% matching in cash. Although during the year ended June 30, 2011 DCR disbursed \$906,853 in program funds no evidence was provided for our examination that indicates that DCR complied with this requirements.

*Criteria:*

Program laws and regulation requires a 10% match in cash for every dollar of federal funds disbursed under the program.

*Cause of Condition:*

DCR personnel Federal Program Department as well as personnel from the accounting department were unable to determine compliance with this program requirement or were unable to provide evidence that indicate compliance with such requirement.

*Effect of Condition:*

DCR might be exposed to claims from the U.S. Department of Justice for the amount not matched in accordance with program laws and regulations.

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*Recommendation:*

Controls and procedures should be established to assure that proper documentation about compliance with program requirements exist at all times.

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***Finding: 10-SA-01***

*Federal Program:*

16.586 Violent Offenders Incarceration and Truth Sentencing Incentive Grants

*Federal Grantor:*

U.S. Department of Justice

*Compliance Requirement*

Reporting

*Reporting Requirement:*

Material non-compliance in relation to a compliance requirement

*Condition:*

During our analysis of the quarterly government reports necessary to meet compliance requirement, we noted that September and December reports were not filed on its due date as specified in the regulation.

*Status of Corrective Action:*

Situation remained the same since during the fiscal year ended June 30, 2011 federal amounts were disbursed under this program but no reports were submitted to the U.S. Department of Justice. See 11-SA-01.

***Finding: 10-SA-02***

*Federal Program:*

16.586 Violent Offenders Incarceration and Truth Sentencing Incentive Grants

*Federal Grantor:*

U.S. Department of Justice

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*Compliance Requirement:*

Cash management

*Reporting Requirement:*

Material non-compliance in relation to a compliance requirement and significant deficiency in internal control over a major federal program

*Condition*

In certain instances, with respect to the above mentioned federal program, DCR does not have appropriate procedures to minimize the time elapsing between the transfer of funds and its disbursement. In other cases when the program is on a reimbursement basis the transfer of funds are requested before the related disbursement is made.

*Status of Corrective Action:*

No similar instances noted during the fiscal year ended June 30, 2011 single audit.

***Finding: 10-SA-03***

*Federal Program:*

16.586 Violent Offenders Incarceration and Truth Sentencing Incentive Grants

*Federal Grantor:*

U.S. Department of Justice

*Compliance Requirement*

Davis Bacon Act

*Reporting Requirement:*

Material non-compliance in relation to a compliance requirement and significant deficiency in internal control over a major federal program



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*Condition:*

DCR is not obtaining certified payrolls from contractors as required by the Act to ensure that the minimum prevailing wage is being paid to contractor personnel.

*Status of Corrective Action:*

No similar instances noted during the fiscal year ended June 30, 2011 single audit.

***Finding: 10-SA-04***

*Federal Program:*

16.586 Violent Offenders Incarceration and Truth Sentencing Incentive Grants

*Federal Grantor:*

U.S. Department of Justice

*Compliance Requirement*

Matching

*Reporting Requirement:*

Material non-compliance in relation to a compliance requirement and material weakness in internal control over a major Federal program

*Condition:*

Federal program 16.586 Violent Offenders Incarceration and Truth Sentencing Incentive Grants requires DCR to provide a 10% matching of the Federal funds received in cash. DCR has reported in the quarterly financial status reports filed with the U.S Department of Justice a total accumulated Federal share of \$20,704,396 of which DCR has matched only \$2,315,800. However this match was in kind and the in kind contribution was provided by other governmental entity. No approval from the U.S. Department of Justice of this change in matching requirement was provided by management for our examination.

*Questioned Costs:*

2,315,800

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*Status of Corrective Action:*

Not corrected. Similar situation noted during the fiscal year ended June 30, 2011 single audit.  
See 11-SA-01.

***Finding: 09-SA-01***

*Federal Program:*

16.586 Violent Offenders Incarceration and Truth Sentencing Incentive Grants

*Federal Grantor:*

U.S. Department of Justice

*Compliance Requirement*

Equipment and real property management

*Reporting Requirement:*

Material non-compliance in relation to a compliance requirement and material weakness in internal control over a major Federal program

*Condition:*

During the year ended June 30, 2009 DCR utilized Federal funds for the acquisition of a building located in San Juan, Puerto Rico. The Federal awarding agency approved the acquisition of this building with the condition that DCR comply with the requirement set forth under the National Environmental Policy Act (NEPA) before starting the proposed project.

*Questioned Costs:*

\$1,175,000

*Status of Corrective Action:*

Not corrected. Building acquired with federal funds continues in same status as in last year.

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***Finding: 09-SA-02***

*Federal Program:*

16.586 Violent Offenders Incarceration and Truth Sentencing Incentive Grants

*Federal Grantor:*

U.S. Department of Justice

*Compliance Requirement*

Matching

*Reporting Requirement:*

Material non-compliance in relation to a compliance requirement and material weakness in internal control over a major Federal program

*Condition:*

Federal program 16.586 Violent Offenders Incarceration and Truth Sentencing Incentive Grants requires DCR to provide a 10% matching of the Federal funds received. DCR has reported in the quarterly financial status reports filed with the U.S Department of Justice a total accumulated Federal share of \$9,268,140 of which DCR has matched only \$17,440.

*Questioned Costs:*

\$909,374

*Status of Corrective Action:*

Not corrected. Program laws and regulation requires that matching be provided in cash. However DCR provided the matching in kind. Approval by the U.S. Department of Justice for the change from a matching in cash to a matching in kind was not provided for our examination.

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***Finding: 09-SA-03***

*Federal Program:*

16.586 Violent Offenders Incarceration and Truth Sentencing Incentive Grants

*Federal Grantor:*

U.S. Department of Justice

*Compliance Requirement*

Cash management

*Reporting Requirement:*

Material non-compliance in relation to a compliance requirement and material weakness in internal control over a major Federal program

*Condition:*

In certain instances, DCR does not have appropriate procedures to minimize the time elapsing between the transfer of funds and its disbursement. The program is on a reimbursement basis and therefore the transfer of funds should be requested after the related disbursement is made.

*Status of Corrective Action:*

No similar instances noted during the fiscal year ended June 30, 2011 single audit.

***Finding: 09-SA-04***

*Federal Program:*

16.586 Violent Offenders Incarceration and Truth Sentencing Incentive Grants

*Federal Grantor:*

U.S. Department of Justice

*Compliance Requirement*

Reporting

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*Reporting Requirement:*

Non-compliance with a compliance requirement.

*Condition*

Financial status report for the quarter ended March 31, 2009 was filed with the U.S. Department of Justice after its due date.

*Status of Corrective Action:*

Not corrected. See Finding 11-SA-01